Analysis of the Current Challenges on Pennsylvania Hospitals

PREPARED FOR
THE HOSPITAL AND HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA

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Executive Summary
Pennsylvania hospitals are emerging from one the largest health care crises in more than a century, stemming from the COVID-19 pandemic. However, in its wake a confluence of challenges has appeared, placing the health care delivery system in jeopardy. According to an October KaufmanHall report, “2022 is proving to be the most difficult year financially for healthcare providers since the COVID-19 pandemic began in 2020. Staffing shortages, skyrocketing labor costs, continuing supply chain disruptions, inflation, rising interest rates, and volatile markets are pressuring both revenue and expenses.”¹ This sentiment was overwhelmingly conveyed in interviews with leaders representing 10 hospital and health systems across Pennsylvania. Many of these challenges are not merely transitory but likely represent a new normal.

Staffing shortages for nurses and clinical care support at hospitals, nursing homes, physician’s offices, and other health care settings are at unprecedented levels, which have created disruptions in care across Pennsylvania. These shortages have contributed to wages being driven up significantly over the past year, while overall inflation hit a 40-year high in June.² These substantial increases in care delivery expenses have outpaced payment rates from Medicare, Medicaid, and commercial payers, placing considerable strain on Pennsylvania hospitals and health systems.

The Pennsylvania Health Care Cost Containment Council’s (PHC4) latest COVID-19 Disaster Emergency Report continues to show losses for hospitals related to the effects of COVID-19.³ The report shows that hospitals had COVID-related labor expenses of $293.8 million in the first half of 2022. These represent new expenses used for preventing, preparing for, and controlling COVID-19. Pennsylvania hospitals’ combined expense increases and revenue losses attributable to the pandemic were $678.3 million for the first half of 2022, bringing the total since the start of the pandemic to almost $7.9 billion.

In short, Pennsylvania hospitals and health systems are facing a perfect storm. We outline the significant systemic challenges contributing to Pennsylvania hospitals’ stability further in this report. As the post-COVID-19 challenges and disruptions continue, we anticipate hospital financial concerns about liquidity will grow. Pennsylvania hospitals are taking the lead in addressing many of these challenges, but without additional support, it is

² Bureau of Labor and Statistics, June 2022.
³ https://www.phc4.org/reports/finreport/112922/docs/finreport112922.pdf
unclear whether many hospitals will be able to weather the financial disruption this crisis has created, which could, in turn, affect access to care across the commonwealth.

Engaged by The Hospital and Healthsystem Association of Pennsylvania (HAP) to identify the current challenges faced by hospitals in the commonwealth, our interviews with hospitals and health systems point to unsustainable conditions. Interviewees noted that reimbursement from Medicare, Medicaid, and commercial payers are insufficient to overcome the rate of expense increases, and these increases do not appear to be limited to the short term. Most Pennsylvania hospital and health system representatives interviewed said they cannot merely cut costs in order to resolve this financial situation because doing so on the scale required risks affecting the overall service needs of their communities.

Pennsylvania hospital and health system leaders we spoke with consistently referred to the current operating environment as the toughest they have experienced in their careers. The operational and fiscal stresses they face to sustain sufficient access for the patients and the communities they serve present a clear and present dilemma that must be addressed.

Introduction
The COVID-19 pandemic reminded the public, patients, state governments, and the nation of the critical role of hospitals as community assets that stand ready to serve in times of crisis. Most Pennsylvania hospitals and health systems were able to financially weather the COVID-19 pandemic—thanks to the resiliency of the workforce and state and federal aid—but are now facing a perfect storm.

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Staffing shortages, skyrocketing labor costs, continuing supply chain disruptions, inflation, rising interest rates, and volatile markets are pressuring both revenue and expenses for Pennsylvania hospitals and health systems. As health economists Andrew Sudimack and Daniel Polsky noted in a recent *Health Affairs* article, “While it’s tempting to view these challenges as transient shocks, a rapid recovery seems unlikely for a number of reasons. Thus, hospitals will be forced to take aggressive cost-cutting measures to stabilize [their] balance sheets. For some, this will include department or service line closures; for others, closing altogether.”

Approach
To assess the financial and operational strain hospitals continue to endure in the wake of the COVID-19 pandemic, The Hospital and Healthsystem Association of Pennsylvania (HAP) engaged Health

4 [https://www.healthaffairs.org/content/forefront/inflation-squeezing-hospital-margins-happens-next](https://www.healthaffairs.org/content/forefront/inflation-squeezing-hospital-margins-happens-next)
Management Associates (HMA) to conduct interviews with hospital financial leaders across the commonwealth. This report summarizes the interview responses and analyzes the information provided.

From October 15, 2022, to December 2, 2022, HMA interviewed leaders representing 10 health systems and more than 60 hospitals in Pennsylvania (see Appendix A for the list of hospital systems). These leaders oversee facilities across both urban and rural settings in the commonwealth with bed counts ranging from 25 to more than 1,400. These interviews captured information related to:

- **Labor challenges including:**
  - Workforce shortages
  - Turnover rates
  - Vacancy rates and number of open positions
  - Contract labor
  - Wage increases (e.g., recruitment and retention fees)
  - Increased workforce competition from non-health care sectors
- **Non-labor (supplies and drugs) expense challenges**
- **Changes in and challenges in patient access to health care services**

This report summarizes our findings. Identifiable information at the hospital or health system level is confidential.

**Labor Challenges Are Biggest Threat**

Interviewees expressed several significant concerns about non-workforce challenges, but a recurring theme was that labor issues pose the greatest threat to financial stability both now and into the foreseeable future. Further, many representatives of hospitals and health systems said these challenges are unlikely to completely dissipate after the direct impacts of COVID-19 fade.

**Workforce Shortages**

Recruitment and retention have challenged both urban hospitals, which have faced fierce competition for staff, and rural hospitals, which have struggled to attract new clinical and non-clinical employees to more remote locations. All interview participants indicated significant workforce shortages across various areas, with many noting depletions in nearly all categories of employees. Some key positions include registered nurses (RNs), especially for medical surgical units, intensive care units, surgery, and emergency departments; nurses’ aides; respiratory therapists; anesthesiologists; behavioral health providers; environmental services professionals; dietary staff; clinical technicians in surgery, radiology, and lab; medical assistants for physician clinics; and billing professionals. Interviewees indicated vacancy and turnover rates in these areas and overall are at levels two to three times higher than historical averages. Preliminary results of HAP’s December 2022 survey of member hospitals’ workforce needs found that hospitals were reporting staff vacancy rates of nearly 31 percent for RNs, 32 percent for
respiratory therapists, 24 percent for medical technologists/lab technicians, and 42 percent for medical assistants. Further, turnover rates were 15 percent for RNs, nearly 12 percent for respiratory therapists, and nearly 16 percent for medical technologists/lab technicians.

During COVID spikes, the existing workforce has been further challenged, with significant numbers of staff needing to take sick leave to manage their own illness or to care for sick family members. One interviewee remarked that staffing is currently stretched so thin that if the hospital were to experience an influenza outbreak on the scale experienced in prior years, it would present critical issues for the facility.5

These shortages cannot be tied to one simple cause; rather, myriad factors contribute to this ongoing problem.

**Burnout**
As has been widely reported, many direct care clinical professionals, such as RNs, are facing professional burnout stemming from what they have endured over the past three years of the COVID-19 pandemic. As reported in a USA Today/Ipsos poll released February 22, 2022, health care workers have reported experiencing ongoing strain coming out of the peaks of the COVID-19 pandemic, with 23 percent saying they were likely to leave the field soon. The workers surveyed included physicians, nurses, paramedics, therapists, and other professionals.6

Hospitals have tried to address this issue by providing unprecedented pay incentives such as increased wages, retention bonuses, and increased loan forgiveness (as discussed further below); however, the workforce shortages have created a feedback loop wherein the additional pressures on the remaining staff lead to higher rates of burnout and increased shortages. Experience to date indicates these issues cannot be solved with financial incentives alone. Other strategies to address burnout have included migrating some RN work to non-patient-facing roles (such as quality monitoring and improvement) as well as providing additional opportunities for career advancement.

**External Competition**
Hospitals and health systems are facing increased competition for staff from other industries. As workforce shortages occur in other sectors, wage competition has resulted in hourly wage hikes, particularly for entry-level employees and workers without college degrees. Distribution centers (e.g., Amazon), retail outlets (e.g., Target), financial institutions, and restaurants have increased their starting hourly wages dramatically to attract and retain workers, including non-degreed positions. This has put a tremendous strain on hospitals, operationally and financially, to secure vital personnel such nurses’ aides, environmental services staff, orderlies, and supply chain technicians. As one interviewee noted, these competing jobs, while challenging, may be attractive to workers, as many hospital jobs offering similar pay are more physically and mentally demanding. Moreover, after experiencing a pandemic,

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5 In a press conference on December 5, 2022, Centers for Disease Control and Prevention director Rochelle Walensky noted that the country has seen the highest flu hospitalizations (78,000) this time of year in a decade.
hospital work may be perceived as more hazardous, driving potential workers to seek opportunities elsewhere.

RN shortages, combined with a reduction in other patient-facing care delivery professionals, have presented hospitals with the difficult challenge of continuing to meet the health care needs of their communities. One interviewee said that in past nursing shortages, delivery system models would flex to ensure nurses worked only where necessary and received support from other staff where possible. Now, as hospitals are experiencing significant overall workforce shortages, these adjustments are not available to hospitals and health systems, and new solutions must be identified.

**Increased Labor Costs**

According to the HMA interviewees, labor costs have increased significantly since pre-pandemic levels as hospitals and health systems have sought to resolve their staffing shortages. Interviewees noted that, at first, wage hikes and recruitment/retention strategies were implemented as short-term solutions; however, after nearly three years of experience, it seems likely these strategies will remain necessary at some level indefinitely.

**Contract Labor**

One significant strategy in managing the workforce shortage and other factors at play has been turning to contract agencies for RNs and other skilled positions. Contract agencies often are used to augment staff departures resulting from naturally occurring turnover. However, given the workforce shortages noted above, Pennsylvania hospitals, like most hospitals across the nation, have experienced a dramatic rise in contract labor to sustain adequate staffing levels.

All interviewees reported that before the pandemic, less than 15 percent of their nursing labor costs were related to contract workers, with some interviewees noting that their hospitals and health systems had zero to negligible numbers of contract nurses before the pandemic. However, since then, contract labor costs have increased 10-20 percentage points as a share of nursing costs. This spike is the result of both the pure volume of open staff positions being backfilled with contracted workers and a significant increase in the average hourly rate for these services. Some interviewees indicated that rates for contracted RNs have more than doubled over the past three years, going from approximately $70 per hour to a peak of $180 per hour.

Contracted labor rates were reportedly decreasing during the last half of 2022 following the peak of the omicron wave but continue to significantly exceed staff labor rates and may increase again if demand rises during the influenza season.

The experience of the Pennsylvania hospitals and health systems we interviewed relative to contract labor largely comports to other national studies and reporting on the increases in contract labor expense. A May 12, 2022, *Fierce Healthcare* article cited a KaufmanHall report which found that nationally hospitals’ contract labor expense grew from 2 percent of total labor expense in 2019 to 11
percent in the first quarter of 2022. Similarly, a HAP survey of staffing costs between 2019 and 2021 indicated that Pennsylvania hospitals had to double contracted RN rates across that period, leading to a 444 percent increase in agency costs for nursing support staff (e.g., certified nursing aides).

Hospitals have attempted to address rising contracted labor costs by establishing internal traveling nurse programs across their health systems, which allows a system to reap the benefits of travelers who staff the departments with the greatest need without relying on external agencies. Although this strategy helps to reduce some of the costs associated with traveling workers, contract nurses—internal or external—demand higher wages than staff nurses.

**Increased Wages, Bonuses, and Other Incentive Pay and Benefits**

Pennsylvania hospitals and health systems have taken several steps to address workforce shortages and contract labor challenges. One step they have taken consistently is to raise pay levels to attract and retain staff in an effort to mitigate the need for contract labor. Hospitals and health systems have implemented sign-on bonuses, retention bonuses, vaccination bonuses, higher overtime compensation, and overall increases in employee pay scales. Interviewees noted these tactics are commonly used to attract and retain RNs and other clinical personnel for routine inpatient nursing floor care, surgery, radiology, lab, and other ancillary and support positions. Overall, these strategies have resulted in premium pay increases that are two-to-five times higher than normal levels. Further, this situation has resulted in year-over-year overall average hourly wage increases ranging from 10-20 percent above pre-pandemic levels, and for RNs these increases are even higher. Historically, these positions have experienced low single-digit percent increases year-over-year. Bonus pay has exceeded $50 million per year in some of the larger Pennsylvania health systems—most of which was new spending.

Fitch Ratings has reported that hospital employee average weekly earnings have increased 21.1 percent since February 2020, significantly outpacing the rest of the private sector at 13.6 percent. As wage levels have been reset at higher levels, it likely will be difficult to reduce them in the future, even in the absence of a pandemic.

**Other Recruitment and Retention Strategies**

Beyond wage incentives, interviewees noted several other tactics to reduce historically high open positions and turnover rates such as tuition reimbursement for new nursing graduates, tuition payment with two-year post-graduation agreement, more flexible scheduling, and increased collaboration with local nursing and community colleges to recruit new staff.

Some interviewees increased their effort to recruit overseas staff and worked to help these staff assimilate into their new communities. This strategy has helped to supplement the domestic workforce; however, the backlog of Medicaid provider enrollment has created other barriers.

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8 https://www.haponline.org/Resource-Center?resourceid=766
Non-Labor Challenges: Another Substantial Hurdle

Pharmacy and Supply Costs
While workforce shortages present the most significant challenge to hospitals and health systems today, and labor costs represent the largest portion of expenses incurred, non-labor expenses, such as medical supplies and pharmacy items, also represent a substantial hurdle. As noted previously in this report, inflation is running at historic highs and permeates all categories of non-labor hospital expenses including supplies, clinical capital equipment, and purchased services. The Pennsylvania hospital and health systems we interviewed noted supply and pharmacy expense increases ranging from 6 to 40 percent over the past few years. These outcomes are consistent with other surveys and studies such as KaufmanHall’s October 2022 report, *2022 State of Healthcare Performance Improvement; Mounting Pressures Pose New Challenges*. In this report, KaufmanHall concluded that 80 percent of US hospitals surveyed experienced non-labor expense hikes ranging from 6 to 20 percent over the past year. These increases pervade the entire supply chain, globally and domestically, including raw materials, transportation (container, parcel, and courier), and fuel costs.

Given that most hospitals rely heavily on government payers for reimbursement, and that payment rates do not vary within a given year across all payers, hospitals generally have minimal opportunities to shift costs as a means of managing in-year expense increases and limited opportunities year-to-year.

Supply Chain Delays
In addition to increased costs, interviewees noted medical supply, pharmacy, and capital equipment disruptions have resulted in increased ordering lead times and inventory levels to ensure essential care items are available when necessary. Supplies that were previously easy to procure are now scarce, including needles, tourniquets, lab collection tubes, and most recently pediatric cribs for the influx of children with respiratory syncytial virus (RSV). Interviewees noted that for large equipment replacement, a hospital may need to put money down one to two years in advance to guarantee the product’s availability.

To address supply chain shortages, hospitals have also had to develop relationships with more vendors rather than engaging sole-source contractors. This change in practice has been necessary to ensure access to needed supplies, thought it also results in cost increases for the hospitals and health systems.

These disruptions not only increase expenses and jeopardize patient care but also add to administrative burden. One interviewee noted that their health system had more than 50 drugs on backorder, with staff required to manage that list weekly, creating yet another nonclinical responsibility that must be fulfilled.

Negotiated Contracts
Although providers of equipment and supplies may increase prices to offset increased costs of materials, many hospitals are locked into long-term contracts with payers. These agreements often include annual price adjustments tied to inflation, so the hospitals are unable to adjust rates in the short term (within the negotiated year(s)) to match the rising costs. Furthermore, many Pennsylvania hospitals provide care to a significant number of Medicaid and Medicare patients. Under these programs, hospitals and
health systems are unable to negotiate rates with the state and federal government (hospitals are largely “price takers”), and under these programs payment rates have not mirrored cost growth, or more specifically increases in labor and supply costs.

Access to Care

Workforce challenges are affecting patients’ access to care in multiple ways and across the health care continuum, not only in hospitals, but also within behavioral health, long-term care (e.g., nursing homes), and home health settings among others.

Added Barriers

The Pennsylvania hospital and health system leaders interviewed indicated that though they have strived to maintain comprehensive services for the communities they serve, they are under pressure, both operationally and financially. Given staffing pressures, hospitals cannot use the full capacity of their facilities because they are unable to sufficiently staff the beds. Most interviewees noted that, to date, they have not yet had to implement full-scale closures. Instead, one strategy has been to combine specialty services into a centralized location rather than providing the services at multiple facilities.

Additionally, a shortage of clinical care resources including RNs, surgical technicians, and anesthesiology resources has forced many hospitals to curtail the number of surgical procedures, resulting in delays in care, temporary or permanent shutdowns of service lines and departments, and decreased capacity to meet demand for some services. While hospitals have not yet been forced to completely eliminate these services, Pennsylvania patients are facing additional barriers to receiving care they need.

From January 2010 to April 2022, 30 hospitals have closed in Pennsylvania, reducing access to care in some cases and putting stress on the entire hospital sector. Six of those facilities have closed since the beginning of 2021, including First Hospital, a 149-bed psychiatric hospital in Wyoming Valley that closed in October 2022, decreasing the already inadequate supply of inpatient behavioral health services.

Looking ahead, several interviewees noted that given the degree of operational and financial challenges, the sustainability of some services they provide has come under closer scrutiny. If these challenges persist, many hospital leaders stated that additional cutbacks, and potentially closures, will be necessary.

Delays in Transitions of Care

A few additional common themes emerged from these interviews, which are consistent with findings and surveys conducted more broadly and nationally. Those themes included operating at less than capacity because of:

- An inability to fully staff inpatient nursing floors and surgical areas
- Increased backlogs and waiting times in emergency departments
• Reduced access to behavioral health services
• Insufficient access to long-term care (skilled nursing facilities)

Hospitals are not alone in facing workforce challenges. The entire health care industry is grappling with this issue, leading to reduced capacity at lower levels of care. Most interviewees noted adequate access to behavioral health and skilled nursing care as a significant challenge. Patients often are treated in the emergency department but cannot be discharged due to a lack of suitable care options. Skilled nursing centers are facing the same workforce shortage issues as hospitals (particularly RNs and nursing aides), thus limiting access to long-term care. In addition, interviewees noted the limits on behavioral health access as a function of both staffing shortages and inadequate funding. The aggregate impact of these issues on Pennsylvania hospitals and the patients they serve are longer lengths of stay (avoidable delays), increased boarding times of patients in emergency departments, and delays in care for patients needing hospital services.

In a November 2022 letter to President Joe Biden, the American Medical Association and American Nurses Association were among 35 medical groups that warned that emergency department boarding has reached a “crisis point” because of staffing shortages. In these issues are affecting many rural hospitals acutely, posing risks to the availability of hospital care in communities across Pennsylvania.

Conclusions
Interviewees noted that reimbursement from Medicare, Medicaid, and commercial payers are insufficient to overcome the rate of expense increases they are facing and likely will continue to face in the foreseeable future. Most of the Pennsylvania hospital and health system representatives interviewed noted they cannot merely “cut their way out of this” without affecting the overall service needs of their communities.

Fitch Ratings has revised its outlook for the hospital sector as “deteriorating,” noting that many not-for-profit hospitals are likely to violate debt covenants in 2022 and that “we may be in a period of elevated downgrades and Negative Outlook pressure for the rest of 2022 and into 2023.”

The overwhelming consensus of the Pennsylvania hospital and health system leaders was that the current operating environment is the toughest they have faced in their careers (the COVID-19 pandemic notwithstanding). Sustaining sufficient access for Pennsylvania patients and communities while hospitals face these significant operational and fiscal stressors presents a clear and present dilemma in need of a rapid resolution.

Appendix A: Hospital Systems Interviewed
Between October 15, 2022, and December 2, 2022, HMA conducted interviews with hospital leaders representing the following 10 hospitals and health systems across Pennsylvania, including:

- Allegheny Health Network
- Doylestown Health
- Excela Health
- Geisinger Health System
- Guthrie Healthcare System
- Lehigh Valley Health Network
- Penn Highlands Health
- St. Luke’s University Health Network
- Temple Health
- UPMC